BLUE DOT

Results of Operations (Quarterly)
($ MILLIONS)

	First Quarter			Second Quarter			Third Quarter			Fourth Quarter		
	Plan	Actual	Variance	Plan	Actual	Variance	Plan	Actual	Variance	Plan	Actual	Variance
Revenues	$ 107	$ 95	$ (12)	$ 132	$ 117	$ (15)	$ 138	$ 132	$ (6)	$ 131	$ 128	$ (3)
Gross Margin	42	35	(7)	53	43	(10)	56	48	(8)	51	39	(12)
Gross Margin %	39.3%	36.8%	(2.4%)	40.2%	36.8%	(3.4%)	40.6%	36.4%	(4.2%)	38.9%	30.5%	(8.5%)
Operating Income	(2)	(6)	(4)	8	1	(6)	9	7	(3)	5	(11)	(16)
EBITDA	2	(3)	(5)	10	3	(7)	12	4	(8)	8	(5)	(13)
Net Income(Loss)	2	(1)	(3)	-	(2)	(2)	8	2	(6)	(1)	(10)	(9)

Source: prepared based on the information contained in Attachment A - 14 to this Basis for Opinion.

Attachment A - 13

BLUE DOT

Results of Operations (YTD)
($ MILLIONS)

	YTD 3/31/02 [1]			YTD 6/30/02 [2]			YTD 9/30/02 [3]			YTD 12/30/02		
	Plan	Actual	Variance	Plan	Actual	Variance	Plan	Actual	Variance	Plan [4]	Actual [5]	Variance
Revenues	$ 107	$ 95	$ (12)	$ 239	$ 212	$ (27)	$ 377	$ 344	$ (33)	$ 508	$ 472	$ (36)
Gross Margin	42	35	(7)	95	78	(17)	151	126	(25)	202	165	(37)
Gross Margin %	39.3%	36.8%	(2.4%)	39.7%	36.8%	(3.0%)	40.1%	36.6%	(3.4%)	39.8%	35.0%	(4.8%)
Operating Income	(2)	(6)	(4)	5.6	(4.7)	(10.3)	14.8	1.9	16.7	20	(9) [6]	(29)
EBITDA	2	(3)	(5)	12	0	(12)	24	4	(20)	32	(1) [6]	(33)
Net Income(Loss)	2	(1)	(3)	2	(3)	(5)	10	(1)	9	9	(11) [6]	(20)

[1] MFIR [NOR361982]
[2] MFIR [NOR362060]
[3] MFIR [NOR362116]
[4] MFIR [NOR361907]
[5] NW 2002 Form 10-K, p. F - 54
[6] Excludes 4th quarter write-offs, see Attachment A - 1 to this Basis for Opinion.

Attachment A - 14

BLUE DOT

Results of Operations (Monthly)

($ MILLIONS)

	December 2001 (1)			January 2002 (2)			February 2002 (3)		
	Plan	Actual	Variance	Plan	Actual	Variance	Plan	Actual	Variance
Revenues	$ 41	$ 29	$ (12)	$ 35	$ 33	$ (2)	$ 35	$ 30	$ (5)
Gross Margin	16	9	(7)	14	12	(2)	14	11	(3)
Gross Margin %	39.2%	30.2%	(9.0%)	40.0%	36.4%	(3.6%)	40.0%	36.7%	(3%)
EBITDA	N/A	N/A	N/A	(2)	(1)	1	0	(1)	(1)
Net Income(Loss)	(0)	(5)	(5)	(2)	(1)	1	(1)	(1)	0

	March 2002 (4)			April 2002 (5)			May 2002 (6)			June 2002 (7)		
	Plan	Actual	Variance	Plan	Actual	Variance	Plan	Actual	Variance	Plan	Actual	Variance
Revenues	$ 37	$ 32	$ (5)	$ 40	$ 36	$ (4)	$ 45	$ 40	$ (5)	$ 48	$ 42	$ (6)
Gross Margin	15	12	(3)	16	13	(3)	18	14	(4)	19	16	(3)
Gross Margin %	40.5%	37.5%	(3%)	40.0%	36.1%	(3.9%)	40.0%	35.0%	(5.0%)	39.6%	38.1%	(1.5%)
EBITDA	1	(1)	(2)	2	0	(2)	4	0	(4)	5	3	(2)
Net Income(Loss)	0	(1)	(1)	1	0	(1)	1	(1)	(2)	2	1	(1)

(1) MFIR [NOR361891]
(2) MFIR [NOR361907]
(3) MFIR [NOR361925]
(4) MFIR [NOR361982]
(5) MFIR [NOR362025]
(6) MFIR [NOR458113]
(7) MFIR [NOR362068]

Attachment A - 15

Attachment A - 16

Valuation of Blue Dot as of 1/1/02 - REVISED ASSUMPTIONS

INCOME APPROACH

	Estimate of Value ($ Millions)
Present Value Interim Cash Flows :	(5) [1]
Discounted Terminal Value :	7 [1]
Total	3
Invested Capital Premium for Control :	0% [2]
Indicated Invested Capital Value :	3
Excess (deficit) Working Capital :	(2) [2]
Plus Cash Balance	36 [2]
Revised Business Enterprise Value :	**$ 37**

[1] See Attachment A - 17 to this Basis for Opinion.

[2] From AAA's Valuation as of 1/1/02. [NOR365616]

NorthWestern Corporation
Revised Valuation of Blue Dot as of 1/1/02 - Revised Assumptions

Attachment A - 17

INCOME APPROACH
DISCOUNTED CASH FLOWS METHOD
Calculation of Interim Cash Flows
($ Millions)

For the Years Ending December 31, Number of Months		2001 12	2002 12	Projected 2003 12	2004 12	2005 12	2006 12	Stabilized Period
Net Revenues (a)		423.8	449.2	476.2	504.8	535.0	567.1	567.1
Cost of Goods Sold		268.0	284.4	301.4	319.5	338.7	359.0	359.0
Gross Profit (b)		155.8	164.8	174.8	185.2	196.4	208.1	208.1
Total Operating Expenses & Other (c)		150.8	157.2	166.7	176.7	187.3	198.5	198.5
EBITDA		5.0	7.6	8.1	8.6	9.1	9.6	9.6
Depreciation Expense		9.1	7.7	5.9	5.7	5.0	4.8	5.6
Amortization Expense		7.2	7.1	6.9	7.0	7.0	7.0	0.0
Amortization Deferred Gain		0.0	(1.6)	(2.8)	(1.4)	(0.3)	(0.1)	0.0
EBIT		(11.3)	(5.4)	(1.9)	(2.7)	(2.6)	(2.1)	4.0
Estimated Income Taxes @	38.5%	(4.4)	(2.1)	(0.7)	(1.0)	(1.0)	(0.8)	1.6
Debt- Free Net Income		(6.9)	(3.3)	(1.2)	(1.7)	(1.6)	(1.3)	2.5
Plus :								
Depreciation Expense			7.7	5.9	5.7	5.0	4.8	5.6
Amortization Expense			7.1	6.9	7.0	7.0	7.0	0.0
Amortization Deferred Gain			(1.8)	(2.8)	(1.4)	(0.3)	(0.1)	0.0
Less :								
Capital Expenditures			5.0	15.3	11.6	4.9	4.2	5.6
Working Capital Requirements @	7.0%		1.7	2.0	2.5	3.1	3.3	1.6
Debt-Free Net Cash Flow			**3.0**	**(8.5)**	**(4.5)**	**2.1**	**2.9**	**0.9**
Partial Period Adjustment			1.00	1.00	1.00	1.00	1.00	
Adjusted Debt- Free Net Cash Flow			3.0	(8.5)	(4.5)	2.1	2.9	
Discount Period			0.50	1.50	2.50	3.50	4.50	
Factor @ WACC	11.0%		0.9492	0.8551	0.7704	0.694	0.6252	
Present Value			2.8	(7.2)	(3.4)	1.5	1.8	

Present Value of Interim Cash Flows : $ (4.5) Million

Terminal Value Calculations			**Terminal Factor** ($ Millions)	**Terminal Value** ($ Millions)	**Discounted Value 12.00%** ($ Millions)
Capital Final Year DFNCF at WACC less g	g =	3.0% g	0.9	11.4	7.1 (1)

Discounted Value Calculation (1)

Terminal Value	11.4
Number of Periods	4.5
Interst Rate	11%
Present value	7.1

REVISED ASSUMPTIONS

(a) Revenues increase 6% per year from base year (2001). Therefore 2002 actual Revenue would have been projected to be $449 million. Actual Revenue YTD 6/30/02 of $213 multiplied by 2 equals $426. 2002
(b) Used actual YTD Gross Margin percentage of 36.7% from June 2002 MFIR.
(c)Total Operating Expenses - 35% of sales starting in 2002-2006. See footnote (a) below.
(d) Used 5-year projection in conformity with customary valuation principles. 5-year discipline was used for valuation of Expanets.

Attachment A - 18

AAA Valuation Summary of Blue Dot as of 1/1/02 - AS REPORTED

INCOME APPROACH [1]

	Estimate of Value ($ Millions)
Present Value Interim Cash Flows :	115 [2]
Discounted Terminal Value :	201 [2]
Total	**316**
Invested Capital Premium for Control :	0% [3]
Indicated Invested Capital Value :	316
Excess (deficit) Working Capital :	(2) [3]
Plus Cash Balance	36 [3]
Business Enterprise Value :	**$ 351**

[1] AAA did not use the Market Approach in it's valuation of Blue Dot, which was a major criticism by D&T.

[2] See Attachment A - 19 to this Basis for Opinion.

[3] From AAA's Valuation as of 1/1/02. **[NOR365616]**

NorthWestern Corporation
AAA Valuation of Blue Dot as of 1/1/02 - AS REPORTED

Attachment A - 19

INCOME APPROACH
DISCOUNTED CASH FLOWS METHOD
Calculation of Interim Cash Flows
($ Millions)

For the Years Ending December 31, Number of Months		2001 12	2002 12	Projected 2003 12	2004 12	2005 12	2006 12	2007 12	2008 12	2009 12	2010 12	2011 12	Stabilized Period	3 YR CAGR (2003-2006) (a)	6 YR CAGR (2002-2007) (a)
Net Revenues		423.8	448.6	478.0	513.8	557.5	604.8	653.3	696.7	737.6	781.7	806.2	805.2	7.7%	6.7%
Cost of Goods Sold		288.0	279.4	295.4	315.0	338.0	364.7	392.0	418.0	440.3	465.9	478.1	478.1	6.9%	6.2%
Gross Profit		155.8	169.4	182.6	198.8	218.5	240.1	261.3	278.7	297.3	315.8	328.1	328.1	8.1%	7.6%
Operating Expenses & Other															
Selin, General & Admin.Expense		146.9	156.2	166.7	174.7	186.2	198.4	210.4	220.5	231.6	243.9	249.6	249.6	6.3%	5.4%
NOR Management Fees		5.1	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-100.0%	-100.0%
Other Expense (Income)		(0.2)	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NMF	NMF
Total Operating Expenses & Other		150.8	155.5	166.7	174.7	186.2	198.4	210.4	220.5	231.6	243.9	249.8	249.6	6.3%	5.4%
EBITDA		5.0	13.9	16.9	24.1	32.3	41.7	50.9	58.2	65.6	71.8	78.5	78.5	31.7%	20.9%
Depreciation Expense		9.1	7.7	5.9	6.7	5.0	4.8	4.8	4.2	3.7	3.1	3.2	5.6	-11.1%	-9.3%
Amortization Expense		7.2	7.1	6.9	7.0	7.0	7.0	7.0	7.0	7.1	7.1	7.1	0.0	-0.1%	0.0%
Amortization Deferred Gain		0.0	(1.8)	(2.8)	(1.4)	(0.3)	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0	-59.1%	-100.0%
EBIT		(11.4)	0.9	6.8	12.8	20.6	29.9	39.5	47.0	54.8	61.7	68.2	70.9	140.3%	61.3%
Estimated Income Taxes @	38.5%	(4.4)	0.3	2.6	5.0	7.9	11.6	15.1	18.4	21.1	23.8	26.6	27.3	140.3%	61.3%
Debt- Free Net Income		(7.0)	0.6	4.2	7.9	12.7	18.4	24.2	28.6	33.8	38.0	40.7	43.6	140.3%	61.3%
Plus :															
Depreciation Expense			7.7	5.9	6.7	5.0	4.8	4.8	4.2	3.7	3.1	3.2	5.6	-11.1%	-9.3%
Amortization Expense			7.1	6.9	7.0	7.0	7.0	7.0	7.0	7.1	7.1	7.1	0.0	-0.1%	0.0%
Amortization Deferred Gain			(1.8)	(2.8)	(1.4)	(0.3)	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0	-59.1%	-100.0%
Less :															
Capital Expenditures			6.0	15.3	11.6	4.0	4.2	4.5	4.6	5.1	5.4	5.8	5.6	4.0%	1.4%
Working Capital Requirements @	7.0%		1.7	2.0	2.6	3.1	3.3	3.4	3.0	2.9	3.1	1.69	1.6	17.2%	-0.7%
Debt-Free Net Cash Flow			6.8	(3.1)	6.1	15.5	22.7	27.9	32.9	38.4	39.8	43.8	43.8	35.1%	23.0%
Partial Period Adjustment			1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00			
Adjusted Debt- Free Net Cash Flow			6.8	(3.1)	6.1	15.5	22.7	27.9	32.9	38.4	39.8	43.8			
Discount Period			0.50	1.50	2.50	3.50	4.50	5.50	6.50	7.50	8.50	9.50			
Factor @ WACC	11.0%		0.9492	0.8551	0.7704	0.694	0.6252	0.5633	0.5075	0.4572	0.4119	0.371			
Present Value			6.5	(2.7)	3.9	11.4	14.2	15.7	16.7	16.7	16.3	16.2			

Present Value of Interim Cash Flows : $ 114.9 Million

Terminal Value Calculations			Terminal Factor ($ Millions)	Terminal Value ($ Millions)	Discounted Value 12.00% ($ Millions)
Capital Final Year DFNCF at WACC less g	g =	3.0% g	43.28	540.8	200.7 [b]

Discounted Value Calculation [b]	
Terminal Value	540.8
Number of Periods	9.5
Interest Rate	11%
Present value	200.7

SOURCE: AAA valuation as of 1/1/02, some minor differences due to rounding. (NOR396617)

Attachment A - 20

AAA Valuation of Blue Dot as of 10/1/02 - AS REPORTED

INCOME APPROACH [1]

	Estimate of Value ($ Millions)
Present Value Interim Cash Flows :	36 [2]
Discounted Terminal Value :	86 [2]
Total	122
Invested Capital Premium for Control :	0% [3]
Indicated Invested Capital Value :	122
Excess (deficit) Working Capital :	6 [3]
Plus Cash Balance	16 [3]
Business Enterprise Value :	**$ 143**

[1] AAA did not use the Market Approach in it's valuation of Blue Dot, which was a major criticism by D&T.

[2] See Attachment A - 21 to this Basis for Opinion.

[3] From AAA's Valuation as of 1/1/02. **[NOR364698]**

NorthWestern Corporation
AAA Valuation of Blue Dot as of 10/1/02 - AS REPORTED - ALTERNATE SCENARIO

Attachment A - 21

INCOME APPROACH
DISCOUNTED CASH FLOWS METHOD
Calculation of Interim Cash Flows
($ Millions)

For the Years Ending December 31, Number of Months		Q4 2002 3	2003 12	Projected 2004 12	2005 12	2006 12	2007 12	Stabilized Period	5 YR CAGR (Q4 2002-2006) (a)
Net Revenues		131.5	516.1	536.7	558.2	580.6	603.7	603.7	5.1%
Cost of Goods Sold		86.4	327.2	336.6	347.7	359.3	372.5	372.5	4.2%
Gross Profit		45.1	188.9	200.2	210.5	221.2	231.2	231.2	6.7%
Operating Expenses & Other		46.4	176.6	182.5	188.1	193.9	199.2	199.2	4.4%
EBITDA		(1.3)	12.4	17.7	22.4	27.3	32.0	32.0	61.7%
Amortization Deferred Gain		(0.5)	(1.6)	(1.4)	(1.0)	(0.3)	0.0	0.0	NMF
Depreciation Expense		1.4	5.5	4.9	5.0	5.3	5.5	5.5	-7.5%
Amortization Expense		1.8	6.9	7.0	7.0	7.0	7.0	0.0	122.0%
EBIT		(4.0)	1.6	7.2	11.4	15.3	19.5	26.5	NMF
Estimated Income Taxes @	38.5%	(1.5)	0.6	2.8	4.4	5.9	7.5	10.2	NMF
Debt- Free Net Income		(2.5)	1.0	4.4	7.0	9.4	12.0	16.3	NMF
Plus :									
Amortization Deferred Gain		(0.5)	(1.6)	(1.4)	(1.0)	(0.3)	0.0	0.0	NMF
Depreciation Expense		1.4	5.5	4.9	5.0	5.3	5.5	5.5	-7.5%
Amortization Expense		1.8	6.9	7.0	7.0	7.0	7.0	0.0	122.0%
Less :									
Capital Expenditures		0.9	4.2	4.8	4.9	5.2	5.5	5.5	-3.2%
Working Capital Requirementsm @	8.0%	1.6	3.2	1.7	1.7	1.8	1.9	1.4	NMF
Debt-Free Net Cash Flow		(2.3)	4.4	8.6	11.4	14.4	17.1	14.9	23.0%
Partial Period Adjustment		1.00	1.00	1.00	1.00	1.00	1.00		
Adjusted Debt- Free Net Cash Flow		(2.3)	4.4	8.6	11.4	14.4	17.1		
Discount Period		0.13	0.75	1.75	2.75	3.75	4.75		
Factor @ WACC	13.0%	0.9484	0.9124	0.8074	0.7146	0.6323	0.5596		
Present Value		(2.1)	4.0	7.0	8.2	9.1	9.6		

Present Value of Interim Cash Flows : $ 35.7 Million

Terminal Value Calculations			Terminal Factor ($ Millions)	Terminal Value ($ Millions)	Discounted Value 12.00% ($ Millions)
Capital Final Year DFNCF at WACC less g	g =	3.0% g	15.34	153	86 [1]

Discounted Value Calculation [1]	
Terminal Value	153
Number of Periods	4.75
Interst Rate	13%
Present value	85.9

SOURCE: AAA valuation as of 10/1/02, some minor differences due to rounding. [NOR364698]

3. NW violated the disclosure requirements under GAAP and SEC regulations as a result of its misleading, inadequate and/or untimely disclosures

Relevant Literature

The disclosures of required financial information may appear on the face of the financial statements themselves or in the notes which form an integral part of the financial statements. FASB Concepts Statement 5, *Recognition and Measurement in Financial Statements of Business Enterprises*, states that some useful information is better provided, or can only be provided, by notes to financial statements or by supplementary information or other means of financial reporting, and that such information is essential to understanding the information presented in financial statements. [¶ .7]

Indeed, the authoritative accounting literature is replete with disclosure requirements aimed at enhancing the understanding of financial statements. A good example of this is SFAS 5 which states that "[d]isclosure of the nature of an accrual … [of an estimated loss from a loss contingency] and, in some circumstances, the amount accrued may be necessary for the financial statements not to be misleading." [¶ .9] A second example is SFAS 47, *Disclosure of Long-Term Obligations*, which requires, among other things, disclosure of future payments on long-term borrowings and redeemable stock. Still another example is SFAS 57, *Related Party Disclosures*, which requires financial statements to include various disclosures with respect to material related party transactions.

AICPA Statement of Position 94-6, *Disclosure of Certain Significant Risks and Uncertainties* ("SOP 94-6"), requires reporting entities to make disclosures in their financial statements about risks and uncertainties with respect to "nature of operations, use of estimates in the preparation of financial statements, certain significant estimates, and current vulnerability due to certain concentrations." [¶ .8] Under *Certain Significant Estimates*, it states that, "[i]n addition to disclosures required by [SFAS 5] and other accounting pronouncements, [SOP 94-6] requires disclosures regarding estimates used in the determination of the carrying amounts of assets or liabilities or in disclosure of gain or loss contingencies, as described below. [¶ .12]

> Disclosure regarding an estimate should be made when known information available prior to issuance of the financial statements indicates that *both* of the following criteria are met:
>
> a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
>
> b. The effect of the change would be material to the financial statements.
> [¶ .13]

For estimates that meet the criteria for disclosure under ¶ .13 excerpted above, SOP 94-6 "requires disclosure of an indication that it is at least reasonably possible that a change in the estimate will occur in the near term." [¶ .16]

In addition to financial statement disclosures required by GAAP, Item 303 of Regulation S-K of the Exchange Act of 1934 prescribes specific disclosure requirements for Management's Discussion and Analysis ("MD&A") presented in SEC filings, including "such other information that the registrant believes to be necessary to an understanding of its financial condition, changes in financial condition and results of operations." It states the following with respect to liquidity, capital resources, and results of operations:

> (1) Liquidity. Identify any known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the registrant's liquidity increasing or decreasing in any material way. If a material deficiency is identified, indicate the course of action that the registrant has taken or proposes to take to remedy the deficiency. Also identify and separately describe internal and external sources of liquidity, and briefly discuss any material unused sources of liquid assets.
>
> (2) Capital resources. (i) Describe the registrant's material commitments for capital expenditures as of the end of the latest fiscal period, and indicate the general purpose of such commitments and the anticipated source of funds needed to fulfill such commitments. (ii) Describe any known material trends, favorable or unfavorable, in the registrant's capital resources. Indicate any expected material changes in the mix and relative cost of such resources. The discussion shall consider changes between equity, debt and any off-balance sheet financing arrangements.
>
> (3) Results of operations. (i) Describe any unusual or infrequent events or transactions or any significant economic changes that materially affected the amount of reported income from continuing operations and, in each case, indicate the extent to which income was so affected. In addition, describe any other significant components of revenues or expenses that, in the registrant's judgment, should be described in order to understand the registrant's results of operations. (ii) Describe any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. If the registrant knows of events that will cause a material change in the relationship between costs and revenues (such as known future increases in costs of labor or materials or price increases or inventory adjustments), the change in the relationship shall be disclosed. (iii) To the extent that the financial statements disclose material increases in net sales or revenues, provide a narrative discussion of the extent to which such increases are attributable to increases in prices or to increases in the volume or amount of goods or services being sold or to the introduction of new products or services. (iv) For the three most recent fiscal years of the registrant, or for those fiscal years in which the registrant has been engaged in business,

whichever period is shortest, discuss the impact of inflation and changing prices on the registrant's net sales and revenues and on income from continuing operations.

NW's violations of GAAP and SEC disclosure requirements

The documents and deposition testimony that I have read provide compelling evidence that NW management violated the disclosure requirements of GAAP and SEC Regulations with respect to the adequacy, timing and veracity of its disclosures regarding the matters discussed in the following sections.

a. The true extent of problems associated with Expanets' EXPERT system that resulted in improper or inaccurate billings.

As noted previously in this report, NW management, and in particular Mr. Hylland, was touting the operating and financial benefits of Expanets' EXPERT system. For example, Mr. Hylland commented on the progress of the EXPERT System during the April 30th analysts call stating that "....Expanets completed the cutover of [its EXPERT] system, as [it] made that system fully operational." **[NOR379799]**

However, Mr. Hylland's assertions are contradictory to internal information NW management was receiving concerning the operating performance of EXPERT. The documents and deposition testimony are replete with examples of the problems with the EXPERT system. The following is but a sample of documented evidence of such problems:

- Kliewer testified that Hylland was "aware of...substantial problems with EXPERT." Kliewer further acknowledged that Hylland had this knowledge sometime between March 15, 2002 and April 15, 2002. **[Kliewer 186:5-25 – 187:1]**

- Fresia testified that when he started at Expanets in April 2002, Lewis and Hylland told him that the EXPERT billing function was not working and that bills had not been sent out for some time. **[Fresia 7:13-25]**

- When asked about Snella's declaration to Paul Hastings concerning Expanets, Mr. Kliewer testified that he did not disagree with Mr. Snella's statement that, among other things, the problems with the EXPERT system were so obvious that everyone involved in monitoring the status knew of the severity of the problems.

- The Special Committee Report stated that, Timothy Atkinson (Expanets General Counsel) informed Mr. Hylland on May 19, 2002 that "...there would be a sizeable impact on current revenue, cash collections, and future operations for Expanets, due to the numerous billing errors that occurred [resulting from EXPERT deficiencies].... Therefore, many clients would not pay their

outstanding bills or return to Expanets for future services." **[NOR519792 – Special Committee Report, p.23]**

- Mr. Jacobsen testified that the July MFIR indicated that 100% of the customers would not receive accurate bills until October. **[Jacobsen 83 : 19-23]**

- Furthermore, Mr. Drook agreed that "Northwestern's 10-Q for the first and second quarters of 2002 and its press releases attached to form 8-K mischaracterized Expanets' billing activities as fully operational or operational." **[Drook 160:14-24]**

Yet, despite the overwhelming evidence to the contrary, NW knowingly misled analysts and the public by asserting that EXPERT was "fully operational." In fact, in its MD&A, NW painted a misleadingly rosy picture of EXPERT stating that "…the system has eliminated redundant costs incurred under the former transition service agreements executed with Avaya as part of the original Lucent GEM acquisition. The system is now operational and savings are expected to continue throughout 2002 from both efficiencies and the elimination of non-capitalizable integration costs from the project. **[NW 2Q' 02 Form 10-Q, p.25]** However, the true nature and extent of the problems with EXPERT were not publicly disclosed until NW restated its consolidated financial statements in April 2003 for the first three quarters. NW attributed its restatement adjustments with respect to the allowance for bad debts and billing adjustments to the deficiencies associated with EXPERT.

b. The deteriorating financial condition of Expanets and Blue Dot and resulting impact on consolidated operating performance and cash flows

As discussed in Basis for Opinion 2. a., the financial condition of both Expanets and Blue Dot continued to deteriorate during 2002. The documents and deposition testimony that I have read provide convincing evidence of management's knowledge of the deteriorating financial condition of both Expanets and Blue Dot. The following is but a sample of such documented evidence:

- Kliewer testified that Hylland was "aware of substantial risks associated with Expanets' and Blue Dot's ability to meet the representative 2002 EBITDA targets and that there were substantial problems associated with the risks…." Kliewer further acknowledged that Hylland had this knowledge sometime between March 15, 2002 and April 15, 2002. **[Kliewer 186:5-25 – 187:1]**

- According to the minutes of The January 28, 2002 Executive Committee Meeting, Mr. Orme Stated that NW had gone through $175 million in cash during the last quarter, of which $70 million was to Expanets. He also stated that "In essence, we're no better off regarding working capital when we were before the $200 million offering". **[NOR 365803]**

- NW's Special Committee concluded that *as early as the first quarter of 2002*, Mr. Hylland "knew or should have known that the statements made in NorthWestern's publicly filed documents and press releases were inconsistent with his knowledge of Blue Dot's and Expanets' actual performance." (Emphasis added.) **[NOR519814 – Special Committee Report, p.45]**

- In his April 7, 2002 email to Mr. Hylland concerning the "Draft 1stQ Forecast Release," Mr. Orme states that "I am skeptical of anything Expanets represents and I therefore wanted to provide some flexibility on our side to cover their likely misrepresentations…" **[NOR405696 – Kliewer Ex. 9]** This statement reflects an unequivocal repudiation of Expanets financial forecasts. However, it also reflects NW management's willingness to utilize Expanets inflated forecasts in reporting projected consolidated earnings.

- Kipp Orme's (NW CFO) May 28, 2002 memorandum *Financing Plans & Considerations* cited, among other things, the public's and the rating agencies' concerns regarding the "Massive turnarounds required at Expanets and Blue Dot (with related questions regarding potential goodwill impairment)." **[NOR056238, Hylland Ex. 14]**

- Mr. Charters' May 30, 2002 email to Messrs. Fresia (Expanets CFO), Younger and Walker reflected Expanets' internal concerns about its ability to achieve its EBITDA forecasts: "If revenues aren't ramping to the $919M [million] level by the end of the year, why are you so certain that the EBITDA target is going to be reached?" **[NOR405401]**

At the same time that it was internally expressing serious concerns and skepticism concerning the operating performance of Expanets and Blue Dot, NW management knowingly disseminated contradictory information in its public disclosures. For example, in its April 30, 2002 analysts call regarding First Quarter 2002 Earnings, NW management affirmed its 2002 Expanets forecast for Expanets by stating that "…we have gone ahead and sized our revenue base at $920 million conservatively. We positioned [Expanets'] business to be successful with our EBITDA targets of $80 million to $87 million this year, assuming no economic recovery." **[NOR379770]** However, as discussed in Basis for Opinion 2.a., NW was exceeding its targeted EBITDA of $21 million for six months ended June 30, 2002 through the use of $55 million of earnings "enhancements" in the form of GAAP violations.

In its April 30, 2002 press release, NW knowingly misstated that there was "….substantial improvement as we expected from our communications business, Expanets" during the first quarter of 2002. Also, in its press release dated May 17, 2002, NW stated that "Expanets expects to achieve its previously announced $135 million EBITDA increase in 2002 – reaching $80 to $87 million in EBITDA…." However, management was fully aware that Expanets "substantial improvement" was the direct result of GAAP violations that artificially inflated operating income and EBITDA. Thus, NW management was artificially inflating Expanets operating results to enable it to continue to "confirm its full year guidance" of $87 million.

Throughout 2002, NW continued to provide materially misleading information to the public concerning Expanets. For example, in its August 8, 2002 Second Quarter Earnings Release conference call, NW confirmed that "We continue to stand behind our forecasts as being on track at an EBITDA level of $80 to $87 million." **[NOR063184]** NW's management expressed its optimism about Expanets in such superlatives as "tremendous accomplishment." **[NOR063183]** NW further stated that "…if we look at the first six months it's been an even more dramatic improvement where you've seen the six months ended last year was a negative $63 million, and on an overall basis the six months operating income was $8.3 million for Expanets." **[NOR063182]** However, management was fully aware that Expanets "dramatic transformation" was the direct result of the GAAP violations discussed in this report that artificially inflated operating income and EBITDA.

As further indication of management's knowledge of the accounting problems at NW's subsidiaries, a February 18, 2002 memorandum documents a discussion among Messrs. Drook, Hanson Knapp and VanCamp regarding, among other things, the internal auditors' allegations of possible fraud at NCS (an Expanets subsidiary). Among other things Messrs. Knapp and VanCamp noted the following:

- Messrs. Janecke and Ming (the internal auditors) believe that the financial irregularities uncovered by Marty Barrack during his due diligence of Norcom…were serious and required corrective measures through the adoptions of formal policies.

- In our investigation, we did hear repeatedly from individuals within Norcom and from members of management that the accounting environment… was "aggressive," particularly with respect to the recognition of revenues, so that Norcom could "make the numbers."

- Management's response to the findings of the internal audit report was slow, at times not effective and also missed one of the most damning remarks of the report.

- Though there is some question about factual basis for the internal auditors statement that management directed Norcom employees to "meet projected numbers by whatever means necessary", the failure by management to initially respond directly to the statement is disquieting.

- There is an indication that management understood the revenue recognition problems and other accounting difficulties well in advance of the internal audit, and clearly thereafter, and was slow to take corrective measures resulting in adjustments extending beyond monthly and quarterly reporting periods.

- Messrs. Janecke and Mings's performance appraisal was by manager (Kindt) who had never supervised their work because their purported supervisor (Monaghan)

was involved in approving some of the accounting treatments that the auditors questioned… Kindt reports directly to Monaghan. **[NOR521843-47]**

Thus, NW violated SEC disclosure requirements by failing to disclose the impact of the deteriorating financial performance of Expanets and Blue Dot on NW's trend in earnings and its liquidity.

c. The nature and extent of intercompany advances to Expanets and Blue Dot

NW disclosed in its 2001 Form 10-K that "Expanets will need to complete the implementation and full functionality of the 'Expert System' in [2002] in order to realize the contemplated cost savings and productivity enhancements. Further delays in this process could have a negative effect on its operations and cash flow." However, as discussed in Basis for Opinion 2.a. and in 3.a. above, Expanets encountered numerous difficulties with the implementation of EXPERT throughout 2002 resulting in a significant expenditure of resources at Expanets.

As a result of the deteriorating financial condition of Expanets during 2002, partially attributable to the costs of the EXPERT system, NW was forced to advance significant amounts of funds to Expanets. As of December 31, 2001, NW had provided a loan of $51.4 million, which NW disclosed in its 2001 Form 10-K and its Forms 10-Q for the first three quarters of 2002. During 2002, NW made substantial additional working capital advances to Expanets aggregating $139.8 million. Consequently, advances to Expanets as of September 30, 2002 aggregated $191.2 million. **[3Q'02 Form 10-Q/A Amendment No. 2, p.44]**

As discussed in Basis for Opinion 1.a., NW management was fully aware of Expanets deteriorating financial condition. It was further aware of the impact that Expanets EXPERT system and Expanets continuing inability to meet its financial targets was having on NW's consolidated earnings forecast and liquidity. For example, in his May 28, 2002 memorandum *Financing Plans & Considerations*, Kipp Orme (NW CFO) noted the rating agencies' concerns regarding the "Massive turnarounds required at Expanets and Blue Dot (with related questions regarding potential goodwill impairment)." Mr. Orme further noted that, as a result of the EXPERT problems and Expanets' failure to achieve its financial targets, "Expanets… was a much larger cash use in [2001]." **[NOR056238-45, Hylland Ex. 14]**

Thus, management was aware that Expanets was consuming larger amounts of NW's cash than anticipated and, consequently, placing a significant strain on NW's consolidated liquidity. Yet, NW failed to disclose the nature and amount of its substantial advances to Expanets and their potential impact on NW's liquidity in the MD&A of its Forms 10-Q for the first two quarters of 2002. Indeed, it was not until NW filed its Form 10-Q for the third quarter of 2002 that it disclosed that the aggregate amount due from Expanets was $191.2 million as of September 30, 2002. In addition, NW failed to disclose the nature and amounts of advances to Blue Dot for the quarter ended June 30, 2002 until it filed its Form 10-Q/A Amendment No. 1 on September 20,

2002. Therefore, I have concluded that NW failed to comply with applicable SEC Regulations.

d. The impact of "non-recurring revenues" on consolidated operating earnings.

As disclosed in NW's Forms 10-K for the years ended December 31, 2000 and 2001, NW acquired the Growing and Emerging Markets ("GEM") division of Lucent Technologies ("Lucent") in March 2000. As a result of various differences between the parties since the consummation of the transaction in 2000, "Expanets and Avaya (formerly Lucent) completed [in May 2001] a substantial restructuring of the GEM transaction [including] a reconciliation of various financial and performance aspects of the transaction…." **[NW's 2001 Form 10-K]**

Under the terms of a maintenance fee agreement,[1] "Expanets received payments that were calculated based on Avaya's maintenance contract customer base and were known as "management-left-behind" ("MLB") payments. These payments, which were similar in effect to "non-compete" payments, were credited by Expanets to SG&A expenses. These payments were (a) based on an unusual and non-recurring transaction (b) had a limited life (the contract was scheduled to expire in March 2005), and (c) were material to both Expanets operating income and net income. Therefore, disclosure of the impact of such payments was required under SEC Regulation S-K Item 303 (3). However, NW failed to provide such disclosures.

NW subsequently acknowledged its violation of SEC Regulations by including such disclosures in its Forms 10-Q/A for the first three quarters of 2002. The following table summarizes the effects of non-recurring revenue, including MLB, on NW's operating income, EBITDA, and net income for the first three quarters of 2002.

($ in thousands)

	Non Recurring Revenue	Operating Income		EBITDA		Net Income	
		Amt.	%	Amt.	%	Amt.	% [a]
Q1' 02	$ 9,300	$ 34,648	26.8%	$ 62,272	14.9%	$ (29,488)	18.9%
Q2' 02	$ 10,100	$ 48,816	20.7%	$ 81,081	12.5%	$ 15,804	38.3%
Q3' 02	$ 15,300	$ 45,549	33.6%	$ 77,654	19.7%	$ (41,317)	22.2%

[a] - Calculated using a 40% effective tax rate.

[1] Set to expire in March 2005.

e. The dispute regarding the sale of the "Colstrip assets" and resulting impact on consolidated cash flows.

When NW purchased MPC in February 2002, it became a successor-in-interest to a contract for the sale of the Colstrip transmission assets ("Colstrip Assets") to PPL Montana LLC ("PPL"). The contract called for payment of approximately $97 million to NW upon satisfaction of certain conditions.[2]

In its April 30, 2002 analysts' conference call, NW announced that it expected to collect the proceeds from the sale of the Colstrip Assets by June or July 2002. **[NOR379805]** Again, in its analysts call on May 17, 2002, NW reiterated its prior public statement that it would be receiving $97 million from the "Coal Strip divestiture out of the Montana Power transaction… ." **[NOR074571]**

In light of the additional cash requirements to fund Expanets' operating cash flow deficits, resulting in part from the implementation problems with EXPERT throughout 2002, the cash flows from the sale of the Colstrip assets were significant to NW's liquidity. As a result, analysts and rating agencies tracked the status of the sale. **[NOR379805]**

In his deposition, Mr. Jacobsen testified that during the May and June 2002 timeframe, PPL repeatedly informed NW that it would not close on the Colstrip sale until other claims were resolved. He further testified that in July 2002 the dispute relating to the possible sale of Colstrip to PPL had led to NW filing a lawsuit in an attempt to force PPL to abide by its contracted obligation to purchase Colstrip. Jacobsen further testified that PPL focused on certain unrelated issues and was not moving forward to close on the transaction. **[Jacobsen 74:5-25 – 75:1-7]** Yet, despite the clear intention of PPL to delay closing on the Colstrip assets, NW failed to disclose its dispute with PPL and the potential implications for NW's cash flows until it filed its Form 10-Q for the third quarter of 2002. **[3Q'02 Form 10-Q, p. 51]**

Therefore, NW led analysts and the public to believe that receipt of the $97 million proceeds from the Colstrip sale was imminent when, in fact, the consummation of the transaction was, at best, uncertain.

As noted above, SEC Regulation S-K Item 303 (1) requires disclosure of any known trends or any known demands, commitments, events or *uncertainties* that will result in or that *are reasonably likely to result in* the [company's] liquidity *increasing or decreasing* in any material way. However NW failed to provide sufficient disclosure of the uncertainties associated with the Colstrip sale and resulting cash flows and, instead, asserted to the contrary that such cash flows were imminent.

[2] Article 4.15 of the Unit Purchase Agreement dated September 29, 2000 between NW, Touch America Holdings, Inc. and The Montana Power Company with respect to all outstanding membership interests in MPLLC.

f. Billing adjustments, allowance for bad debts and reserve reversal.

NW also violated the GAAP requirements of SOP 94-6 by failing to disclose that it was at least reasonably possible that its estimates of both the allowance for bad debts and billing adjustments would change in the near term and that the effect of such change would be material to NW's consolidated financial statements.

Furthermore, as discussed in Basis for Opinion 2.b., I have concluded that a substantial portion of Expanets' income in the first three quarters of 2002 was derived from improperly reducing various reserves and accrued liability accounts that were knowingly overstated in various periods. NW violated the disclosure requirements of SEC Regulation S-K Item 303 (3) by failing to disclose amounts of Expanets' income derived from these reserve reductions. I have also concluded that NW violated GAAP (specifically, SFAS 5 and SOP 94-6) by failing to (a) provide adequate disclosure about the nature and amount of Expanets' reserve balances and (b) disclose that it was at least reasonably possible that the estimates of its accrued liabilities would change in the near term and that the effect of such change would be material to NW's consolidated financial statements.

<u>4. The correction of the GAAP violations discussed in this report would have caused NW to violate its debt covenants for the quarters ended June 30, 2002 and September 30, 2002.</u>

As required by Section 6.1 of the Credit Agreement dated January 14, 2002 with Credit Suisse First Boston and several other lenders, as amended ("CSFB Credit Facility"), NW was required to comply with three financial covenants as defined therein:

<u>The Minimum Net Worth Covenant</u>

Specifically, Section 6.1(a) establishes the Minimum Net Worth covenant as follows:

> ...Net Worth on the last day of any fiscal quarter of the Borrower [shall not] be less than $350,000,000.

Net Worth is defined in Article 1 of the CSFB Credit Facility as follows:

> ...the sum of shareholders' equity and preferred stock, preference stock and preferred securities of the Borrower and its Consolidated Subsidiaries on such date, in each case as described in the consolidated financial statements of the Borrower.

<u>The Total Capitalization Covenant</u>

Section 6.1(b), as amended August 13, 2002 by Amendment No. 2 to the CSFB Credit Facility, establishes the Total Capitalization covenant as follows:

> ...the ratio (expressed as a percentage) of Funded Debt to Total Capital on the last day of any fiscal quarter of the Borrower [shall not] exceed (i) for any quarter ending prior to the Termination date,[1] 72% for such quarter and (ii) for any quarter ending after the Termination date, 68% for such quarter; provided, however, that any net profits or losses relating to the Discontinued Operations that are incorporated in the Borrower's financial statements shall, in each case, be excluded from Total Capital solely for the purposes of the calculation of the ratio in this Section 6.1(b).

Funded Debt is defined in Article 1 of the CSFB Credit Facility as the sum of all indebtedness of NW, subject to certain exclusions. Total Capital is defined as the sum of Funded Debt and NW's Net Worth, excluding net profit or losses relating to the discontinued operations, as permitted by Section 6.1(b) above.

[1] The Termination date is defined in Article 1 of the CSFB Credit Facility as 364 days after the loans' closing date. NW disclosed in its financial statements originally filed with the SEC on Form 10-Q that this Termination date was February 13, 2003.

The Utility Business' Financial Covenant

Section 6.1(c), as amended August 13, 2002 by Amendment No. 2 to the CSFB Credit Facility, establishes the Utility Business' Financial Covenant as follows:

> ...the ratio of (i) Utility Business EBITDA to (ii) Consolidated Recourse Interest Expense, in each case on the last day of any fiscal quarter of the Borrower during the fiscal year 2002 for the period of January 1, 2002 to date (and thereafter on the last day of any fiscal quarter for the period of four consecutive fiscal quarters then ending), [shall not] be less than 2.00 to 1.00.

Based on the company's financial statements filed with the SEC on Forms 10-Q and 10-Q/A (Amendment No.1 and Amendment No.2) for the second and third quarters of 2002, NW disclosed that it was in compliance with all financial covenants. However, as presented in the Attachments A1-A5 to this Basis for Opinion, the correction of the GAAP violations discussed in Bases for Opinions 1 and 2 would have resulted in NW's violation of its Minimum Net Worth and Total Capitalization covenants as of June 30, 2002 and September 30, 2002.

NW's failure to comply with the aforementioned covenants would have resulted in a default under the CSFB Credit Facility[2]. Accordingly, NW would have been required to reclassify the balance of the long-term portion of the CSFB Credit Facility from long-term debt to current liabilities as of September 30, 2002[3] in conformity with SFAS 78, *Classification of Obligations That Are Callable by the Creditor.* **[¶ 5]**

As discussed in Basis for Opinion 2.a., one of the principal GAAP violations that contributed to the aforementioned breach of covenants was NW's failure to recognize the impairment of goodwill attributable to Expanets and Blue Dot as of June 30, 2002. A subsequent Credit Agreement with Credit Suisse First Boston dated December 17, 2002 specifically excludes Expanets and Blue Dot from the definition of Consolidated Subsidiaries (Section 1.1), thereby excluding the operating results of Blue Dot and Expanets from the aforementioned debt covenant computations subsequent to the effective date of the agreement. Because it cannot be presumed that such an exclusion could or would have been obtained by NW for its covenant calculations as of June 30 and September 30, 2002, I have included the consolidated results of Expanets and Blue Dot, as well as the aforementioned impairment charges attributable to them, in my debt covenant calculations presented in the Attachments to this Basis for Opinion.

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[2] Section 7.1(c) of CSFB Credit Facility states that non-compliance with any requirements of Section 6.1 would constitute an Event of Default.
[3] There was no outstanding long-term indebtedness under this facility as of June 30, 2002.

ATTACHMENTS TO BASIS FOR OPINION 4

Attachment A - 1

NORTHWESTERN CORPORATION

CALCULATION OF THE NET WORTH COVENANT ADJUSTED FOR GAAP VIOLATIONS

AS OF 6/30/2002 (in '000s)

	NW COVENANT CALCULATION	NW RESTATEMENTS	AS RESTATED	GAAP VIOLATIONS NOT RESTATED BY NW: RESERVE REVERSALS	GAAP VIOLATIONS NOT RESTATED BY NW: GOODWILL IMPAIRMENT	AS REVISED
Shareholders' equity of the Borrower and its Consolidated Subsidiaries	$ 357,334 [1]	$ (46,339) [2]	$ 310,995	$ (5,940) [3]	$ (390,000) [4]	$ (84,945)
Preferred stock, preference stock and preferred securities of the Borrower and its Consolidated Subsidiaries	374,000 [1]		374,000			374,000
Net Worth	$ 731,334		$ 684,995			$ 289,055
Covenant Net Worth - Not Less Than $350,000	IN COMPLIANCE		IN COMPLIANCE			NOT IN COMPLIANCE

[1] NW 2Q' 02 10-Q, p 3

[2] See Appendix A - 2.

[3] Reserve reversals of $2 6 million in Q1'02 and $7 3 million in Q2'02 (see Basis for Opinion 2b) net of effective tax rate of 40%.

[4] See Basis for Opinion 2a.

Attachment A - 2

NORTHWESTERN CORPORATION

CALCULATION OF THE NET WORTH COVENANT ADJUSTED FOR GAAP VIOLATIONS

AS OF 9/30/2002 (in '000s)

	NW COVENANT CALCULATION	NW RESTATEMENTS	AS RESTATED	GAAP VIOLATIONS NOT RESTATED BY NW: RESERVE REVERSALS	GAAP VIOLATIONS NOT RESTATED BY NW: GOODWILL IMPAIRMENT	AS REVISED
Shareholders' equity of the Borrower and its Consolidated Subsidiaries	$ 298,938 [1]	$ (60,383) [2]	$ 238,555	$ (19,860) [3]	$ (390,000) [4]	$ (171,305)
Preferred stock, preference stock and preferred securities of the Borrower and its Consolidated Subsidiaries	370,250 [1]		370,250			370,250
Net Worth	$ 669,188		$ 608,805 -			$ 198,945
Covenant Net Worth - Not Less Than $350,000	IN COMPLIANCE		IN COMPLIANCE			NOT IN COMPLIANCE

(1) NW 3Q 02 10-Q, p.3.

(2) See Appendix A - 3.

(3) Reserve reversals of $2.6 million in Q1'02, $7.3 million in Q2'03, and $23.2 million in Q3'02 (see Basis for Opinion 2b) net of effective tax rate of 40%.

(4) See Basis for Opinion 2a.

Attachment A - 3

NORTHWESTERN CORPORATION

CALCULATION OF THE TOTAL CAPITALIZATION COVENANT ADJUSTED FOR GAAP VIOLATIONS

AS OF 6/30/2002 (in '000s)

	NW COVENANT CALCULATION	NW RESTATEMENTS	AS RESTATED	GAAP VIOLATIONS NOT RESTATED BY NW: RESERVE REVERSALS	GAAP VIOLATIONS NOT RESTATED BY NW: GOODWILL IMPAIRMENT	AS REVISED
Funded Debt	$ 1,685,820 [1]		$ 1,685,820			$ 1,685,820
Total Capital	$ 2,462,240 [1]	$ (46,339) [2]	$ 2,415,901	$ (5,940) [3]	$ (390,000) [4]	$ 2,019,961
Total Capitalization	68.5%		69.8%			83.5%
Covenant Total Capitalization Not greater than 72% [5]	IN COMPLIANCE		IN COMPLIANCE			NOT IN COMPLIANCE

[1] See Attachment A - 5

[2] See Appendix A - 2

[3] Reserve reversals of $2.6 million in Q1'02 and $7.3 million in Q2'02 (see Basis for Opinion 2b) net of effective tax rate of 40%.

[4] See Basis for Opinion 2a

[5] Ratio was revised to 72% for all quarters prior to termination date based on Amendment No. 2 of the CFSB credit facility.

Attachment A - 4

NORTHWESTERN CORPORATION

CALCULATION OF THE TOTAL CAPITALIZATION COVENANT ADJUSTED FOR GAAP VIOLATIONS

AS OF 9/30/2002 (in '000s)

	NW COVENANT CALCULATION	NW RESTATEMENTS	AS RESTATED	GAAP VIOLATIONS NOT RESTATED BY NW: RESERVE REVERSALS	GAAP VIOLATIONS NOT RESTATED BY NW: GOODWILL IMPAIRMENT	AS REVISED
Funded Debt	$ 1,708,966 [1]		$ 1,708,966			$ 1,708,966
Total Capital	$ 2,479,177 [1]	$ (60,383) [2]	$ 2,418,794	$ (19,860) [3]	$ (390,000) [4]	$ 2,008,934
Total Capitalization	68.9%		70.7%			85.1%
Covenant Total Capitalization Not greater than 72% [5]	IN COMPLIANCE		IN COMPLIANCE			NOT IN COMPLIANCE

[1] See Attachment A - 5

[2] See Appendix A - 3

[3] Reserve reversals of $2.6 million in Q1'02, $7.3 million in Q2'03, and $23.2 million in Q3'02 (see Basis for Opinion 2b) net of effective tax rate of 40%.

[4] See Basis for Opinion 2a

[5] Ratio was revised to 72% for all quarters prior to termination date based on Amendment No. 2 of the CFSB credit facility.

EXPANETS

Results of Operations (YTD)

($ MILLIONS)

	YTD 3/31/02 [1]			YTD 6/30/02 [2]			YTD 9/30/02 [3]			YTD 12/31/02		
	Plan	Actual	Variance	Plan	Actual	Variance	Plan	Actual	Variance	Plan [4]	Actual [5]	Variance
Revenues	$ 214	$ 202	$ (12)	$ 445	$ 412	$ (33)	$ 686	$ 595	$ (91)	$ 920	$ 710	$ (210)
Gross Margin	80	77	(3)	169	171	2	276	252	(24)	380	266	(114)
Gross Margin %	37.4%	38.1%	.7%	38.0%	41.4%	3.4%	40.2%	42.4%	2.1%	41.3%	37.5%	(3.8%)
Operating Income	7	(4.5)	2.5	(7)	4.8	11.8	12	12	0	30	(103) [6]	(133)
EBITDA	7	7	-	21	30	9	54	51	(3)	87	(48) [6]	(135)
Net Income(Loss)	(1)	(8)	(9)	(4)	(7)	(3)	2	(9)	(11)	10	(157) [6]	(167)

[1] MFIR [NOR361980]
[2] MFIR [NOR362058]
[3] MFIR [NOR362114]
[4] MFIR [NOR361905]
[5] NW 2002 Form 10-K, p. F - 54
[6] Excludes 4th quarter write-offs, see Attachment A - 1 to this Basis for Opinion.

Attachment A - 5

Attachment A - 5

NORTHWESTERN CORPORATION
CALCULATION OF FUNDED DEBT AND TOTAL CAPITAL

(AS USED BY NW IN ITS DEBT COVENANT CALCULATIONS IN CONFORMITY WITH ARTICLE 6 AND EXHIBIT E TO THE CFSB CREDIT FACILITY)

In 000's

Funded Debt

		6/30/2002 (1)		9/30/2002 (2)	
Indebtedness (a)	$	1,782,955	$	1,785,520	
Less : Non Recourse debt (b)		(97,135)		(76,554)	
Funded Debt	$	1,685,820	$	1,708,966	
(a) Debt for Borrowed Money	$	1,745,255 (5)	$	1,764,875	(6)
Outstanding reimbursement obligations under outstanding letters of credit, acceptances and similar obligations		11,700 (7)		20,645	(8)
Guarantee Obligations		26,000 (9)		-	(10)
Indebtedness	$	1,782,955	$	1,785,520	
(b) Non Recourse debt (per NW 10-Q)	$	174,408 (11)	$	130,392	(12)
Less:					
Expanets Guaranteed debt		(50,000) (13)		(40,088)	(14)
MPM Guaranteed debt		(27,273) (15)		(13,750)	(16)
	$	97,135	$	76,554	

Total Capital

		6/30/2002 (3)		9/30/2002 (4)
Funded Debt	$	1,685,820	$	1,708,966
Stockholders' Equity		402,420 (17)		399,961 (17)
Preferred stock, preference stock and preferred securities of Borrower and its Consolidated Subsidiaries		374,000 (18)		370,250 (19)
Total Capital	$	2,462,240	$	2,479,177

(17) Exclusive of the Net Loss from Discontinued Operations of $45,086 [NW Q2 10Q, p.3-4] and $101,023 [NW Q3 10Q, p.3-4] at 6/30/02 and 9/30/02, respectively, as permitted under the CFSB Credit Facility, as amended on 8/13/02.

(18) NW 2Q' 02 10-Q, p.3

(19) NW 3Q' 02 10-Q, p.3

(1) Excludes certain items from the definition of Funded Debt that NW determined not to be applicable [NOR466218, NOR466223]

(2) Excludes certain items from the definition of Funded Debt that NW determined not to be applicable [NOR117675, NOR117680]

(3) NOR 466221

(4) NOR 117678

(5) Debt for Borrowed Money consists of: current maturities of LTD of $173,933; current maturities of LTD-subsidiaries- nonrecourse of $7,125, short-term debt of subsidiaries-nonrecourse of $110,350; long-term debt of $1,396,914; and long-term debt of subsidiaries-nonrecourse of $56,933. [NW 2Q-02 10-Q, p.3].

(6) Debt for Borrowed Money consists of: current maturities of LTD of $25,364; current maturities of LTD-subsidiaries- nonrecourse of $6,133; short-term debt of subsidiaries-nonrecourse of $67,589; long-term debt of $1,609,119; and long-term debt of subsidiaries-nonrecourse of $56,670 [NW 3Q-02 10-Q, p.3]

(7) NOR 466223, NW 2Q' 02 10-Q, p.51

(8) NOR 117680. NW's 3Q' 02 Form 10-Q, p 52 indicates that amount outstanding under the letter of credit is $21,400 rather than $20,645 used by NW. Difference of $755 is not considered material.

(9) NOR 466231

(10) Guarantee obligations related to the Cornerstone entities are excluded from covenant calculations as permitted under the CFSB Credit Facility, as amended on 8/13/02. I believe that the guarantee obligations should have also been excluded as of June 30, 2002, but I did not exclude them as of this date to be conservative and consistent with NW's calculation of its debt covenants.

(11) Non-Recourse Debt Consists of : current maturities of LTD of subsidiaries of $7,125: short-term debt of subsidiaries of $110,350; and LTD of subsidiaries of $56,933 [NW 2Q' 02 10-Q, p.3]

(12) Non-Recourse Debt Consists of : current maturities of LTD of subsidiaries of $6,133: short-term debt of subsidiaries of $67,589; and LTD of subsidiaries of $56,670 [NW 3Q' 02 10-Q, p.4]

(13) NOR 466231, NW 2Q' 02 10-Q, p.52

(14) DT 007343, NW 3Q' 02 10-Q, p.53

(15) NOR 466231, NW 2Q' 02 10-Q, p.50,52 NW guaranteed 50% of MPM's debt of $54,546

(16) DT 007343, NW 3Q' 02 10-Q, p.52 NW guaranteed 50% of MPM's debt of $27,500

5. Based on the defendants' responses to interrogatories and other documents regarding Clark Fork's assets and liabilities as of December 31, 2002 and the further assumption that Clark Fork remained directly obligated under the QUIPS following the "going-flat" transaction, total liabilities materially exceeded total assets.

In its Responses and Objections to Interrogatories dated March 30, 2007, the Defendants asserted that "…the balance sheet of Clark Fork reflected total assets of $11,005,407 and total liabilities of $11,005,407 as of December 31, 2002."[1] However, the Defendants do not specify the nature or composition of the assets and liabilities.

Although I have been unable to find anything denoting the composition of the $11 million of assets and liabilities, the January 28, 2002 memorandum from Messrs. Jacobsen (NW's General Counsel) and Hanson to the NW Board of Directors indicated that NW intended to "isolate Milltown Dam in a subsidiary…." **[NOR142392, Hanson Ex. 10]** In addition, numerous documents provide further evidence that substantially all of Clark Fork's assets and liabilities - except the assets and liabilities associated with the Milltown Dam Site - were transferred to NW in the going-flat transaction.

For example, the following is a sample of such evidence:

- On November 15, 2002, NW and NELLC (subsequently renamed Clark Fork) entered into the Asset and Stock Transfer Agreement (the Agreement) pursuant to which all assets and liabilities of NELLC were transferred to NW, subject to the exclusions discussed below.

- Section 2.2 and Schedule 2.2 of the Agreement specified that the transferred assets did not include the assets related to the Milltown Dam nor certain other de minimus assets.

- Section 2.4 and Schedule 2.4 of the Agreement specified that the transferred liabilities did not include any liabilities related to the aforementioned excluded assets.

- NW's December 27, 2001 memorandum to the SEC relating to its acquisition of MPC requests, among other things, permission to "…to move all of the utility related assets and operations into the parent company, with the exception of those assets related to a single small hydroelectric project, which is currently a Superfund Site [Milltown Dam]…" **[NOR003287, NOR003300]**

- In NW's February 14, 2002 application to the SEC, NW indicates that "… Northwestern currently intends to undertake the second step of the Transaction [Purchase of MPC]… while it explores various options for addressing

[1] Responses and Objections of Northwestern Corporation to Plaintiffs' Magten Asset Management Corporation and Law Debenture Trust Company of New York's *First Set of Interrogatories for Defendant* Northwestern Corporation, p.9.

> the issues and risks associated with the dam. Among the options being explored… include a transfer of the dam to an unaffiliated third party as part of the resolution of the environmental issues…."

Furthermore, I found no documents indicating that any substantive changes had occurred affecting the assets and liabilities of Clark Fork between November 15, 2002 and December 31, 2002.

As noted previously, Counsel has asked me to consider the effect of assuming that Clark Fork remained directly liable for the QUIPS on its financial statements as of the date of the going-flat transaction (November 15, 2002). Although I was unable to locate any Clark Fork financial statements as of November 15, 2002 (or any subsequent date) the amount of the QUIPS was disclosed as $65 million in NW's Form 10-Q for the quarter ended September 30, 2002 and in its Form 10-K for the year ended December 31, 2002. Therefore, it is reasonable to assume that the outstanding balance of the QUIPS was $65 million as of November 15, 2002.

Also, with respect to the value of Clark Fork's assets, Michael Hanson (NWE President and CEO) in his November 14, 2002 letter to Mary Beth Lewicki (Bank of New York VP) stated that "… the [Milltown] Dam Site's fixed revenue stream is not sufficient to cover the projected cost to operate the generation facility" and that "absent ownership by a vertically integrated utility under a traditional regulated utility environment, the Dam Site has no value as a stand-alone economic operating unit."
[NOR000803-5, Kindt Ex. 7]

Based on the foregoing evidence and the assumptions set forth above, I have concluded that the liabilities of Clark Fork ($76 million)[2] materially exceeded the carrying value of its assets ($11 million) as of November 15, 2002 and December 31, 2002. I have further concluded, based principally on Mr. Hanson's aforementioned November 14, 2002 letter and the other documents I have reviewed, that it is highly unlikely that the fair value of Clark Fork's assets would have exceeded its liabilities.

[2] Consists of the QUIPS of $65 million and the $11 million carrying value of the other liabilities.

EXHIBITS

Exhibit A

ROBERT W. BERLINER, CPA, CFE
622 Third Avenue, New York, NY 10017
(212) 503-8853

CURRICULUM VITAE

PROFESSIONAL EXPERIENCE

1990 to Date	**Marks Paneth & Shron LLP**
	Director of Litigation Services
1987 to 1990	**Spicer & Oppenheim**
	National Executive Director of Accounting and Auditing Chairman, National Accounting and Auditing Standards Committee Member, International Audit Committee National Director of Education New York Office Director of Litigation Support Services
1954 to 1987	**Arthur Young (now Ernst & Young)**
1976 to 1987	National Director of Practice Development - Accounting and Auditing Assistant National Director of Auditing (National Office)
1970 to 1976	Client-Handling Partner (New York Office)
1967 to 1970	Managing Partner (Sao Paulo, Brazil Office)
1958 to 1967	Audit Principal, Audit Manager & Senior Accountant (New York Office)
1956 to 1958	Military Service - U.S. Army
1954 to 1956	Staff Accountant (New York Office)

PROFESSIONAL ACTIVITIES

American Institute of Certified Public Accountants:

1987 to 1991	Member of Forecasts and Projections Task Force
1982 to 1984	Member of Financial Feasibility Study Group
1982 to 1984	Chairman of Task Force on Auditor Involvement with Current Value Information
1980 to 1984	Chairman of Task Force on Materiality and Audit Risk
1979 to 1982	Chairman of Task Force on Required Supplementary Information
1979 to 1982	Member of Auditing Standards Board
1979 to 1982	Member of Planning Subcommittee of the Auditing Standards Board
1977 to 1978	Chairman of Task Force on Current Value Disclosures
1976 to 1979	Member of Task Force on Conceptual Framework of Accounting and Reporting

Exhibit A

ROBERT W. BERLINER, CPA, CFE

Professional Activities – (Continued)

Financial Accounting Standards Board:

1987 to 1989	Member of Emerging Issues Task Force
1987 to 1989	Member of FAS 96 Implementation Task Force
1983 to 1985	Member of Task Force for the Review of SFAS 33

Securities and Exchange Commission:

1976 to 1978	Member of Replacement Cost Disclosure Advisory Committee

New York State Society of Certified Public Accountants:

2006 to Date	Chairman of Auditing Standards and Procedures Committee
2002 to 2006	Member of Auditing Standards and Procedures Committee
2006 to Date	Member of Accounting and Auditing Oversight Committee
1992 to Date	Member of Litigation Services Committee
1989 to 1992	Member of General Committee on Accounting and Auditing
1987 to 1989	Chairman of Professional Ethics Committee
1983 to 1986	Member of Professional Ethics Committee

New York University Stern School of Business:

1986 to 1991	Adjunct Professor of Accounting
1984 to 1987	Member of Board of Management Development Laboratory
1976 to 1986	Member of Board of Editorial Advisors of Ross Institute of Accounting

Executive Enterprises:

1977 to 1987	Member of Corporate Accounting Advisory Council

University of Michigan:

1983 to 1987	Member of Paton Accounting Center Advisory Board

Community Activities

Cannon Point South, Inc. Cooperative Housing Corporation:

2002 to Date	Treasurer, member of the Board of Directors and Executive Committee, Chair of the Finance Committee

Florham on the Fairways Condominium Association:

1985 to 2000	President and Member of the Board of Trustees

Exhibit A

ROBERT W. BERLINER, CPA, CFE

Community Activities – (Continued)

New Philharmonic Orchestra of New Jersey:

1994 to 2000	Chairman of the Finance Committee
1993 to 2000	Member of the Board of Trustees

New York University:

1988 to 1989	Vice Chairman of the Alumni Council
1986 to 1989	Member of the Alumni Council

New York University Stern School of Business:

1987 to 1988	President of the Alumni Association
1973 to 1988	Member of the Board of Directors of the Alumni Association

Education

New York University Stern School of Business - M.B.A., 1961

Wharton School, University of Pennsylvania - B.S. in Economics, 1954

Beta Alpha Psi Honorary Accounting Fraternity, President
Beta Gamma Sigma Honorary Society

Professional Certifications

Certified Fraud Examiner, Association of Certified Fraud Examiners, 1995

Certified Public Accountant, New Jersey, 1992

Certified Public Accountant, New York, 1960

PROFESSIONAL MEMBERSHIPS

Accountants Club of America
American Accounting Association
American Institute of Certified Public Accountants
Association of Certified Fraud Examiners
Institute of Management Accountants
New York State Society of Certified Public Accountants

Exhibit B

CASES IN WHICH ROBERT W. BERLINER HAS TESTIFIED AS AN EXPERT AT TRIAL AND/OR DEPOSITION WITHIN THE PRECEEDING FOUR YEARS

In Re: Safety-Kleen Corp. Stockholders Litigation
United States District Court for the District of South Carolina
Civil Action No. 3:00-736-17
Testimony at deposition on September 21, 2003 and September 22, 2003

In Re: Laidlaw Stockholder Litigation
United States District Court for the District of South Carolina
Civil Action No. 3:00-855-17
Testimony at deposition on September 21, 2003 and September 22, 2003

Re: Telxon Corporation Securities Litigation and
William S. Hayman and Arthur M. Hayman v. PricewaterhouseCoopers LLP
United States District Court for the Northern District of Ohio, Eastern Division
Case No. 5:98-CV-2876 and 1:01-CV-1078
Testimony at deposition on December 16, 2003 and December 17, 2003

Barry F. Bovee, et al., vs. Coopers & Lybrand, et al.
United States District Court for the Southern District of Ohio, Eastern Division
Case No. C2 97-449
Testimony at deposition on January 9, 2004

George Lehocky on behalf of himself, et al. v. Tidel Technologies, Inc., et al.
United States District Court for the Southern District of Texas, Houston Division
Case No. H-01-3741
Testimony at deposition on March 31, 2004

Joseph White v. Heartland High-Yield Municipal Bond Fund, et al.
United States District Court, Eastern District of Texas
Case No. 00-1388
Testimony at deposition on June 9, 2004
Testimony at trial on December 2, 2005, December 5, 2005, and December 6, 2005

In Re Broadcom Corp. Securities Litigation
United States District Court, Central District of California, Southern Division
No. SACV 01-275 GLT
Testimony at deposition on August 30, 2004

Exhibit B

CASES IN WHICH ROBERT W. BERLINER HAS TESTIFIED AS AN EXPERT AT TRIAL AND/OR DEPOSITION WITHIN THE PRECEEDING FOUR YEARS

The Official Committee of Unsecured Creditors of Allegheny Health, Education & Research Foundation vs. PricewaterhouseCoopers, L.L.P.
Unites States District Court for the Western District of Pennsylvania
Civil Action No. 00-684
Testimony at deposition on February 16, 2005

In Re Electronic Data Systems Corporation Securities Litigation
United States District Court for the Eastern District of Texas, Tyler Division
Case No. 6:03-CV-110
Testimony at deposition on June 24, 2005

The Huff Alternative Income Fund, L.P. against PricewaterhouseCoopers LLP
Superior Court of New Jersey, Law Division – Bergen County
Docket No. L-9204-03
Testimony at deposition on September 30, 2005

Israel Discount Bank Ltd. vs. Braude & Co., et al.
The District Court of Haifa;
CF 1009/00
Testimony at trial on November 16, 2005 and November 17, 2005

Bayerische Landesbank et al. v. JPMorgan Chase Bank et al.
United States District Court, Southern District of Texas
Case No. 04-CV-2154
Testimony at deposition on September 13, 2006 and September 14, 2006

In Re: McKesson HBOC, Inc. Securities Litigation
United States District Court, Northern District of California, San Jose Division
Case No. 04-CV-2154
Testimony at deposition on March 14, 2007

In Re: Veeco Instruments, Inc. Securities Litigation
United States District Court, Southern District of New York
No. 7:05-md-1695 (CM) (GAY)
Testimony at deposition on June 19, 2007

Exhibit C

LIST OF ALL PUBLICATIONS AUTHORED OR COAUTHORED BY ROBERT W. BERLINER WITHIN THE PRECEDING TEN YEARS

"How Litigators Can Use Accounting Experts To Enhance Their Effectiveness", Practicing Law Institute – Legal Malpractice Course Handbook, Vol. II, June 1999, pp. 567-581.

Exhibit D

HOURLY RATES CHARGED FOR WORK ON THIS ENGAGEMENT

The hourly rates charged for work on this engagement are as follows:

Robert W. Berliner	$775.00
Professional personnel assisting Mr. Berliner	$135.00 to $430.00
Administrative personnel assisting Mr. Berliner	$140.00 to $150.00

The compensation paid or to be paid to MPS is not contingent upon the opinions expressed in this report or the outcome of the litigation.

Exhibit E

Documents Considered

The following Deloitte and Touche documents :

D & T 00001 - D & T 016785

The following American Appraisal Associates documents :

AAA03779 - AAA03786
AAA12169 - AAA12180
AAA14495 - AAA14506
AAA09143 - AAA09168
AAA15731 - AAA15751
AAA12194 - AAA12201
AAA08195 - AAA08195
AAA03229 - AAA03240
AAA06619 - AAA06619
AAA03300 - AAA03300
AAA03784
AAA03785
AAA09119
AAA15718
AAA15760

The following NorthWestern documents :

NOR001172 - NOR001176
NOR001716 – NOR001727
NOR001747 - NOR001752
NOR009772 - NOR009782
NOR009783 – NOR009786
NOR002955 - NOR003051
NOR006177 – NOR006219
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130188-130192
131057-131259
131309-131314
131365
131399-13403

Exhibit E

131469
131527
131528
131554
131555-131582
131584-131621
131623-131663
131880-131898
131941-132082
132283-132484
132723-132733
132736-132947
133432-133789
133791-133989
133991-133992
NOR135870 - NOR135872
NOR135882 - NOR135883
NOR135888 - NOR135891
NOR138132 - NOR138134
NOR138135
NOR138140 - NOR138141
NOR138154 - NOR138159
NOR138214 - NOR138215
NOR138218
NOR138222 - NOR138225
NOR138226 - NOR138293

NOR138295 - NOR138303
NOR138306 - NOR138370
NOR138418
NOR138419 – NOR140011
NOR140012
NOR140145 - NOR140152
NOR140431 - NOR140432
NOR140435 - NOR140436
NOR140438 - NOR140474
NOR140490
NOR140491 - NOR140919
NOR140945 - NOR140953
NOR140980
NOR141018 - NOR141019
NOR141021 - NOR141026
NOR141027
NOR141028
NOR141029
NOR141031 - NOR141032
NOR141560
NOR141561 - NOR141564
NOR141571 - NOR141574
NOR141575
NOR141577
NOR141605
NOR141606 - NOR141611
NOR141612 – NOR141615
NOR141620 - NOR141645
NOR141770 - NOR141771
NOR141774
NOR141775 - NOR141779
NOR141992
NOR141993 - 141997
NOR142001 - 142002
NOR142005 - 142011
NOR142327
NOR142363
NOR142986 - 141241
NOR143533 - 143566
NOR143666 - 143668
NOR143682 - 143683
NOR143684 - 143685
NOR143702 - 143703
NOR143706 - 143707
NOR143715 - 143716
NOR143721

Exhibit E

NOR143722 - 143723
NOR144879 - 144886
NOR145319
NOR145732 - 145826
NOR146409 - 146612
NOR146613 - 146825
NOR146827 - 147027
NOR147197 - 147199
NOR147388
NOR147850
NOR149262
NOR149471
NOR149805
NOR150205 - NOR150225
NOR150335 - NOR150338
NOR150461 - NOR150462
NOR151792 - NOR151800
NOR153031 - NOR153437
NOR154720 - NOR155100
NOR155120 - NOR155589
NOR155591 - NOR155608
NOR155652
NOR155878 - NOR155883
NOR156643 - NOR156900
NOR158219
NOR158344 - NOR158399
NOR158442 - NOR158482
NOR159196 - NOR159198
NOR159432 - NOR159434
NOR159625 - NOR159626
NOR159999 - NOR160003
NOR160004 - NOR160008
NOR160009 - NOR160013
NOR160024
NOR160025 - NOR160052
NOR160410
NOR160438 - NOR160441
NOR161413
NOR161738 - NOR161739
NOR161747
NOR162212 - NOR162215
NOR162290 - NOR162292
NOR163479
NOR164456 - NOR164555
NOR172200-NOR172200
NOR172743-NOR172798
NOR173332-NOR173332
NOR173377-NOR173379
NOR173560-NOR173560
NOR173806-NOR173833
NOR173888-NOR173892
NOR174249-NOR174273
NOR174530-NOR174546
NOR175627-NOR175628
NOR175771-NOR175771
NOR176154 -NOR176155
NOR181723 – NOR181730
NOR181781 - NOR181784
NOR181790 - NOR181792
NOR181803 - NOR181836
NOR181945 - NOR181949
NOR182203 - NOR182294
NOR182539 - NOR182541
NOR182742
NOR183114 - NOR183121
NOR183122 - NOR183128
NOR183313 - NOR183343
NOR183868 - NOR183998
NOR184212 - NOR184408
NOR185491 - NOR185492
NOR185951 NOR185967
NOR186177 - NOR186333
NOR187065 NOR187128

Exhibit E

NOR187173 - NOR187174
NOR187405 - NOR187406
NOR187407 - NOR187431
NOR187432
NOR187433 - NOR187434
NOR187435 - NOR187450
NOR187451 - NOR187453
NOR187454 - NOR187459
187700-187701
187702
187707
187720-187722
187723
187724-187733
187976-187977
188198-188207
188239-188241
188242
188243
188639-188837
188861-189059
189148-189151
NOR189291 - NOR189295
NOR189363 - NOR 189373
NOR189438 - NOR189442
NOR189477
NOR190458 - NOR190459
NOR191328 - NOR191329
NOR191405
NOR191406 - NOR191451
NOR191493 - NOR191518
NOR191519 - NOR191553
NOR191554 - NOR191579
NOR191580 - NOR191604
NOR191605 - NOR191715
NOR191740 - NOR191745
NOR191858 - NOR191860
NOR192498 - NOR192501
NOR193112 - NOR193148
NOR193149 - NOR193159
NOR193250
NOR193251 - NOR193256
NOR193257 - NOR193260
NOR193267 - NOR193264
NOR193265 - NOR193290
NOR193291 - NOR193307
NOR193308 - NOR193309
NOR193310 - NOR193318
NOR193341 - NOR193366
NOR193402 - NOR193403
NOR193438 - NOR193439
NOR193442 - NOR193463
NOR193465 - NOR193470
NOR193519 - NOR193520
NOR193528 - NOR193532
NOR193594
NOR193856 - NOR193858
NOR193924
NOR193948
NOR193949 - NOR193976
NOR194022
NOR194119
NOR194120 - NOR194129
NOR194156 - NOR194158
NOR194297 - NOR194298
NOR194881 - NOR194885
NOR194970 - NOR194985
NOR194986 - NOR194991
NOR195020 - NOR195025
NOR195029 - NOR195031
NOR195032 - NOR195034
NOR195038 - NOR195058
NOR195060 - NOR195080

Exhibit E

NOR195146 - NOR195147
NOR195153
NOR195156 - NOR195163
NOR195538 - NOR195541
NOR195650 - NOR195651
NOR195683 - NOR195686
NOR195699
NOR195903 - NOR195904
NOR196065 - NOR196153
NOR196737
NOR196751 - NOR196774
NOR196775 - NOR196805
NOR196806 - NOR196807
NOR196901 - NOR196909
NOR196972 - NOR196974
NOR196975
NOR196977
NOR196978 - NOR196980
NOR197014 - NOR197015

Exhibit E

NOR197277
NOR197993 - NOR197994
NOR198033 – NOR198038
NOR198047 – NOR198048
NOR198049 – NOR198051
NOR198061 – NOR198063
NOR198329 – NOR198330
NOR198331 – NOR198333
NOR198382
NOR198383 - NOR198422
NOR198506 - NOR198509
NOR199272 – NOR199278
NOR199506 – NOR199526
NOR199537 – NOR199539
NOR199543 – NOR199545
NOR199876 - NOR199878
NOR199943 - NOR199944
NOR200753 - NOR200755
NOR201058
NOR201060 – 204992
NOR204993 – 204994
NOR205483
NOR205490
NOR205504 – 205542
NOR205543 – 205544
NOR206193 – 206194
NOR206205
NOR206218
NOR206220 – 206246
NOR206249 – 206254
NOR206255 – 206285
NOR206339 – 206340
NOR206341 – 206417
NOR206418 – 206897
NOR207750 – 207923
NOR208000 – 208425
NOR209326 – 209583
NOR210027
NOR210040 – 210050
NOR210054 – 210055
NOR210058 – 210059
NOR210062
NOR210069
NOR210146 – 210168
NOR210191 – 210193
NOR210207
NOR210209 – 210231
NOR210232 – 210233
NOR210442 – 210470
NOR210481 – 210482
NOR210486
NOR210489 – 210490
NOR210497 – 210498
NOR210508
NOR210514 - NOR210519
NOR210525 - NOR210526
NOR210529 - NOR210541

Exhibit E

Start	End
NOR201058	NOR204992
NOR201060	NOR201092
NOR204993	NOR204994
NOR205483	NOR205483
NOR205490	NOR205490
NOR205504	NOR205542
NOR205543	NOR205544
NOR206193	NOR206194
NOR206205	NOR206205
NOR206218	NOR206218
NOR206220	NOR206246
NOR206249	NOR206254
NOR206255	NOR206285
NOR206339	NOR206340
NOR206341	NOR206417
NOR206418	NOR206897
NOR207750	NOR207923
NOR208000	NOR208425
NOR209326	NOR209583
NOR210027	NOR210027
NOR210040	NOR210050
NOR210054	NOR210055
NOR210058	NOR210059
NOR210062	NOR210062
NOR210069	NOR210069
NOR210146	NOR210168
NOR210191	NOR210193
NOR210207	NOR210207
NOR210209	NOR210231
NOR210232	NOR210233
NOR210442	NOR210470
NOR210481	NOR210482
NOR210486	NOR210486
NOR210489	NOR210490
NOR210497	NOR210498
NOR210508	NOR210508
NOR210514	NOR210519
NOR210525	NOR210526
NOR210529	NOR210541
NOR210741	NOR210741
NOR210742	NOR210742
NOR210743	NOR210744
NOR210745	NOR210746
NOR210747	NOR210748
NOR210749	NOR210750
NOR210751	NOR210752
NOR210753	NOR210754
NOR210753	NOR210754
NOR210755	NOR210755
NOR210756	NOR210757
NOR210758	NOR210759
NOR210806	NOR210806
NOR210814	NOR210820
NOR210822	NOR210850
NOR210851	NOR210851
NOR210852	NOR210867
NOR210888	NOR210889
NOR211750	NOR211751
NOR212513	NOR212519
NOR212643	NOR212644
NOR213575	NOR213575
NOR213987	NOR213989
NOR214025	NOR214028
NOR215753	NOR215759
NOR219683	NOR219686
NOR222269	NOR222282
NOR222299	NOR222302
NOR223223	NOR223223
NOR223290	NOR223291
NOR223296	NOR223301
NOR223335	NOR223338
NOR223400	NOR223400

Exhibit E

NOR224097	NOR224097
NOR224337	NOR224340
NOR224804	NOR224805
NOR224900	NOR224901
NOR224902	NOR224915
NOR224918	NOR224919
NOR224990	NOR224990
NOR225323	NOR225329
NOR227897	NOR227897
NOR229293	NOR229296
NOR232356	NOR232356
NOR233060	NOR233063
NOR233624	NOR233625
NOR233626	NOR233639
NOR233640	NOR233640
NOR233641	NOR233641
NOR233830	NOR233831
NOR233977	NOR233978
NOR234044	NOR234045
NOR234759	NOR234759
NOR234942	NOR234943
NOR235563	NOR235566
NOR238542	NOR238545
NOR238766	NOR238769

Exhibit E

NOR240959
NOR241012 - NOR241029
NOR241077 - NOR241080
NOR241204 - NOR241306
NOR241374 - NOR241375
NOR243030 - NOR243052
NOR243053 - NOR243063
NOR245118
NOR245829 - NOR245833
NOR245897 - NOR245900
NOR245901 - NOR245909
NOR245935 - NOR245938
NOR245940
NOR245946 - NOR245948
NOR245951 - NOR245959
NOR246029 - NOR246075
NOR246076 - NOR246087
NOR246140 - NOR246147
NOR246583 – NOR246611
NOR246964 - NOR247082
NOR247184 - NOR247289
NOR247290 - NOR247295
NOR247518 - NOR247518
NOR247535 - NOR247544
NOR247563 - NOR247563
NOR247570 - NOR247570
NOR247581 - NOR247581
NOR247598 - NOR248074
NOR249290 - NOR249386
NOR249902 - NOR249925
NOR250113 - NOR250114
NOR250115 - NOR250118
NOR250119 - NOR250133
NOR250174 - NOR250175
NOR250182 - NOR250186
NOR250198 - NOR250202
NOR250203 - NOR250206
NOR250908 - NOR250984
NOR250985 - NOR251471
NOR251776 - NOR251783
NOR251784 - NOR251787
NOR251788 - NOR251811
NOR251812 - NOR251812
NOR251837 - NOR251868
NOR252679 - NOR252690
NOR252728 - NOR252731
NOR252732 - NOR252850
NOR252851 - NOR252961
NOR252962-NOR253066
NOR253067-NOR253069
NOR253070-NOR253074
NOR253075-NOR253086
NOR253087-NOR253089
NOR253090-NOR253097
NOR253098-NOR253112
NOR253113-NOR253119
NOR253120-NOR253128
NOR253129
NOR253130-NOR253135
NOR253996-NOR254043
NOR254044-NOR254053
NOR254054-NOR254099
NOR254100-NOR254146
NOR254147-NOR254158
NOR254159-NOR254164
NOR254159-NOR254164
NOR254234-NOR254456
NOR255455-NOR255470
NOR255471-NOR255482
NOR255890-NOR255906
NOR256770
NOR256772-NOR256773
NOR256774

Exhibit E

NOR258323-NOR258326
NOR258344-NOR258347
NOR258881- NOR258882
NOR259069-NOR259117
NOR259447-NOR259611
NOR261863-NOR262261
NOR262612-NOR263031
NOR263991-NOR264133
NOR265649 - 265654
NOR265687 - 265689
NOR265696 - 265697
NOR266016 - 266064
NOR266073 - 266076
NOR266119 - 266122
NOR266984 - 266989
NOR267661 - 267683
NOR267688 - 267690
NOR268219 - 268220
NOR268673 - 268868
NOR269466 - 269467
NOR269468
NOR274295 - 274552
NOR274996
NOR275569 - 275645
NOR276286 - 276291
NOR276299 - 276300
NOR276322
NOR276323 - 276325
NOR276344-276345
NOR276346-276386
NOR276636-276656
NOR 276657-277245
NOR277361-277362
NOR277447-277495
NOR277496
NOR277502-277503
NOR277551-277554
NOR280164 - NOR280195
NOR280229 - NOR280286
NOR283625 - NOR283635
NOR285018-285023

Exhibit E

NOR285028-NOR285090
NOR285305-NOR285307
NOR285514-NOR285517
NOR285673
NOR285674-NOR285675
NOR285676
NOR285677-NOR285694
NOR285677-NOR285694
NOR285695-NOR285697
NOR285755-NOR285766
NOR285838-NOR285840
NOR285841-NOR285843
NOR285866-NOR285869
NOR285875-NOR285877
NOR285901-NOR285905
NOR285920-NOR285922
NOR286158-NOR286222
NOR286224-NOR286227
NOR286441-NOR286445
NOR286495-NOR286496
NOR287090 - NOR287095
NOR287248 - NOR287375
NOR287377
NOR288074 – NOR288076
NOR288111 – NOR288113
NOR288324 – NOR288325
NOR288326 – NOR288384
NOR288385 – NOR288389
NOR288390 – NOR288401
NOR288402 – NOR288415
NOR288416 – NOR288427
NOR288428 – NOR288439
NOR288440 – NOR288471
NOR288472
NOR288473 – NOR288477
NOR288478 – NOR288486
NOR288487 – NOR288498
NOR288499 – NOR288547
NOR288548 – NOR288550
NOR288553 – NOR288562
NOR288793 – NOR288824
NOR289157 – NOR289379
NOR289873 – NOR289884
NOR28999 - NOR289900
NOR292593 - NOR292599
NOR292604
NOR292949 – NOR292952
NOR293066 - NOR293067
NOR293673 - NOR293676
NOR293873 - NOR293874
NOR293951 - NOR294061
NOR295262 - NOR295307
NOR295308 - NOR295447
NOR297876 - NOR297879
NOR299504 - NOR299511
NOR299512 - NOR299515
NOR299516 - NOR299525
NOR299527 - NOR299560
NOR299561 - NOR299563
NOR299587 - NOR299620
NOR299625 - NOR299673
NOR299831 - NOR299859
NOR299860
NOR299861 - NOR299892
NOR299893
NOR299894 - NOR299925
NOR299926 - NOR299950
NOR300055 - NOR300056
NOR300181 - NOR300192
NOR300181 - NOR300192
NOR300225 - NOR300230

Exhibit E

Start	End
NOR301547	NOR301830
NOR301831	NOR302130
NOR302467	NOR302474
NOR302475	NOR302476
NOR302529	NOR302529
NOR302614	NOR302621
NOR303074	NOR303087
NOR303436	NOR303439
NOR303440	NOR303459
NOR303460	NOR303478
NOR303479	NOR303497
NOR303498	NOR303515
NOR305016	NOR305081
NOR305500	NOR305524
NOR305626	NOR305633
NOR305634	NOR305640
NOR305641	NOR305648
NOR305649	NOR305662
NOR305663	NOR305667
NOR305668	NOR305668
NOR305669	NOR305676
NOR305677	NOR305681
NOR305682	NOR305688
NOR305689	NOR305695
NOR305696	NOR305703
NOR305704	NOR305732
NOR305733	NOR305738
NOR305739	NOR305746
NOR305747	NOR305753
NOR305754	NOR305759
NOR305760	NOR305767
NOR305768	NOR305776
NOR305777	NOR305782
NOR305783	NOR305789
NOR305790	NOR305796
NOR305797	NOR305804
NOR305805	NOR305810
NOR305811	NOR305816
NOR305817	NOR305823
NOR305824	NOR305831
NOR305832	NOR305837
NOR305838	NOR305843
NOR305844	NOR305953
NOR305954	NOR305959
NOR305960	NOR305967
NOR305968	NOR305975
NOR305976	NOR305982
NOR305983	NOR305990
NOR305991	NOR305996
NOR305997	NOR306706
NOR306707	NOR306775
NOR306776	NOR306782
NOR306783	NOR306790
NOR306791	NOR306833
NOR306844	NOR306851
NOR306940	NOR306954
NOR306977	NOR306981
NOR306982	NOR306987
NOR306988	NOR306990
NOR306991	NOR306997
NOR306998	NOR307002
NOR307003	NOR307010
NOR307011	NOR307017
NOR307018	NOR307025
NOR307026	NOR307030
NOR307031	NOR307038
NOR307039	NOR307045
NOR307046	NOR307051
NOR307052	NOR307058
NOR307235	NOR307258
NOR307259	NOR307272

Exhibit E

NOR307634	NOR307658
NOR308285	NOR308288
NOR309199	NOR309281
NOR309838	NOR309860
NOR310313	NOR310318
NOR310535	NOR310584
NOR310585	NOR310634
NOR310635	NOR311194
NOR311618	NOR311649
NOR315962	NOR315968
NOR315969	NOR315988
NOR315989	NOR315995
NOR315996	NOR316002
NOR316003	NOR316026
NOR316027	NOR316033
NOR316003	NOR316035
NOR316036	NOR316040
NOR316041	NOR316060
NOR316061	NOR316088
NOR316635	NOR316648
NOR320482	NOR320493
NOR323328	NOR323330
NOR323427	NOR323430
NOR323534	NOR323539
NOR323928	NOR323929
NOR323930	NOR323931
NOR323932	NOR323933
NOR323934	NOR323935
NOR323936	NOR323937
NOR323938	NOR323939
NOR324968	NOR324973
NOR327692	NOR327708
NOR339229	NOR339231
NOR341373	NOR341374
NOR341758	NOR341760
NOR341761	NOR341762
NOR341763	NOR341764
NOR341765	NOR341766
NOR341767	NOR341768
NOR341769	NOR341769
NOR341900	NOR341902
NOR342349	NOR342350
NOR342818	NOR342820
NOR342977	NOR342978
NOR343085	NOR343087
NOR343124	NOR343150
NOR343559	NOR343560
NOR343561	NOR343562
NOR343563	NOR343564
NOR343565	NOR343566
NOR343567	NOR343568
NOR343569	NOR343569
NOR343570	NOR343572
NOR343755	NOR343778
NOR343965	NOR343966
NOR344143	NOR344146
NOR344170	NOR344172
NOR344279	NOR344315
NOR344376	NOR344378
NOR344665	NOR344666
NOR344995	NOR344997
NOR346287	NOR346289
NOR347933	NOR347933
NOR348808	NOR348836
NOR348837	NOR348849
NOR348850	NOR348856
NOR348925	NOR348930
NOR348931	NOR348934
NOR348957	NOR348971
NOR349045	NOR349045
NOR349051	NOR349051
NOR349112	NOR349139
NOR349140	NOR349142

Exhibit E

NOR349219	NOR349273
NOR349274	NOR349318
NOR349392	NOR349395
NOR349396	NOR349451
NOR349452	NOR349511
NOR349512	NOR349573
NOR349606	NOR349663
NOR349691	NOR349737
NOR349738	NOR349824
NOR349825	NOR349918
NOR349919	NOR349947
NOR349948	NOR349985
NOR349986	NOR349989
NOR349990	NOR350026
NOR350027	NOR350043
NOR350102	NOR350162
NOR350163	NOR350222
NOR350380	NOR350430
NOR350577	NOR350594
NOR350640	NOR350649
NOR350832	NOR350843
NOR350846	NOR350846
NOR350848	NOR350860
NOR351009	NOR351029
NOR351046	NOR351046
NOR351059	NOR351151
NOR351152	NOR351183
NOR351184	NOR351195
NOR351196	NOR351203
NOR351204	NOR351219
NOR351446	NOR351455
NOR351598	NOR351691
NOR351692	NOR351706
NOR351707	NOR351761
NOR351762	NOR351781
NOR351782	NOR351840
NOR352273	NOR352292
NOR352293	NOR352293
NOR352294	NOR352294
NOR352295	NOR352295
NOR352296	NOR352296
NOR352314	NOR352332
NOR352399	NOR352515
NOR354354	NOR354569
NOR359939	NOR360030
NOR360031	NOR360121
NOR360122	NOR360205
NOR360206	NOR360294
NOR360295	NOR360376
NOR360377	NOR360453
NOR360454	NOR360537
NOR360538	NOR360587
NOR360639	NOR360692
NOR360693	NOR360749
NOR360750	NOR360806
NOR360807	NOR360862
NOR360863	NOR360917
NOR360918	NOR360976
NOR360977	NOR361092
NOR361093	NOR361147
NOR361148	NOR361201
NOR361202	NOR361202
NOR361429	NOR361482
NOR361971	NOR361988
NOR362032	NOR362048
NOR362049	NOR362064
NOR362081	NOR362084
NOR362101	NOR362104
NOR362121	NOR362124
NOR362141	NOR362156
NOR363387	NOR363397
NOR363423	NOR363438
NOR363439	NOR363459

Exhibit E

NOR364045	NOR364047
NOR364345	NOR364346
NOR364391	NOR364393
NOR364405	NOR364406
NOR364426	NOR364428
NOR364429	NOR364429
NOR364459	NOR364460
NOR364461	NOR364462
NOR364463	NOR364464
NOR364465	NOR364466
NOR364477	NOR364478
NOR364479	NOR364479
NOR364480	NOR364489
NOR364498	NOR364499
NOR364500	NOR364501
NOR364502	NOR364503
NOR364535	NOR364539
NOR364556	NOR364612
NOR364613	NOR364654
NOR364662	NOR364719
NOR364860	NOR364863
NOR365157	NOR365346
NOR365515	NOR365583
NOR365584	NOR365647
NOR365792	NOR365797
NOR365812	NOR365827
NOR368582	NOR368588
NOR368769	NOR368834
NOR368958	NOR369025
NOR369196	NOR369275
NOR369799	NOR369840
NOR372160	NOR372292
NOR372293	NOR372380
NOR372718	NOR372757
NOR372778	NOR372806
NOR373747	NOR373748
NOR373749	NOR373750
NOR373751	NOR373751
NOR373759	NOR373760
NOR373838	NOR373838
NOR374450	NOR374459
NOR375566	NOR375617
NOR375798	NOR375874
NOR375923	NOR376059
NOR377085	NOR377087
NOR380338	NOR380454
NOR384018	NOR384019
NOR385940	NOR386141
NOR386820	NOR386823
NOR386844	NOR386847
NOR387691	NOR387700
NOR387753	NOR387759
NOR387768	NOR387774
NOR387775	NOR387777
NOR388361	NOR388362
NOR389490	NOR389501
NOR389511	NOR389514
NOR389852	NOR389856
NOR389863	NOR389865
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Exhibit E

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Exhibit E

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Exhibit E

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Exhibit E

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Exhibit E

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Exhibit E

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Exhibit F

TRANSCRIPTS OF DEPOSITIONS

Name	Date of Deposition	Title
Drook, Gary	4/25/07	Former Chief Executive Officer, NW
Fresia, Richard	4/30/07	Former Chief Financial Officer, Expanets
Hanson, Michael	6/27/07	President and Chief Executive Officer, NorthWestern Energy (presently President NW)
Hylland, Richard	5/02/07	Former Chief Operating Officer, NW
Jacobsen, Eric	6/19/07	Former General Counsel, NW
Kindt, Ernie	6/28/07	Former Vice President – Accounting, NW
Kliewer, Kendall	6/29/07	Chief Accountant (2002- 2003), NW
Lewicki, Mary	5/02/07	Vice President, Bank of New York
Lewis, Merle	6/20/07	Former Chairman of Board of Directors and Chief Executive Officer, NW
Nieman, Michael	6/29/07	Manager – Financial Planning (2002-2003), NW
Orme, Kipp	4/12/07	Former Vice President and Chief Financial Officer, NW
Thielbar, Bart	6/21/07	Vice President, NCS (presently Director Special Products, NW)

Magten Asset Management Corporation et al v. Northwestern Corporation et al
C. A. No. 04-1494-(JJF) and C. A. Action No. 05-499-(JJF)

Errata Sheet for Expert Report of Robert W. Berliner

Page	Location	Description
1-2	2nd paragraph from bottom, 3rd line	"Trey Bradley (Expanets' CIO)" should be Trey Bradley (NW's CIO)
1-5	2nd bullet, 4th line	"but I'm not sure they're listening." should be "but I'm not sure that they've 'heard' me."
1-5	Last bullet, 1st line	"Mr. Donovan" should be "Ms. Donovan"
1-12	1st paragraph, 6th line under caption	"2002.1" should be "2002[1]"
2-7	Chart, top line	"($ in thousands)" should be "($in millions)"
2-12	1st line	"$412" should be "$412 million"
2-12	1st paragraph, last line under caption	"$165 million" should be "$163 million"
2-16	1st full paragraph, 2nd and 3rd lines	"Carlino" should be "Carpino"
2-17	1st paragraph, 3rd line under caption	"**[NOR365617]**" should be "**[NOR365586]**"
3-3	1st paragraph, 1st line under the caption	"Mr. Hylland" should be "Mr. Orme"
